

# **Maryland Higher Education Commission**

## **Finance Policy Committee Meeting Agenda**

**9:00 A.M.**

**Thursday, September 19, 2002**

**Maryland Higher Education Commission**

**839 Bestgate Road, Suite 400**

**Annapolis, MD 21401**

# **Maryland Higher Education Commission**

## **Finance Policy Committee Agenda**

**TIME:** 9:00 a.m.  
Thursday  
September 19, 2002

**PLACE:** Commission Meeting Room  
839 Bestgate Road Suite 400  
Annapolis, Maryland 21401

9:00 a.m. Call to Order  
  
Minutes  
  
Overview of the Operating and Capital Budget Process

### **Operating and Capital Budget Presentations**

9:15 a.m.	Maryland Higher Education Commission Karen R. Johnson, J.D.
9:30 a.m.	Maryland Association of Community Colleges Dr. Anthony Kinkel
10:00 a.m.	Maryland Independent College and University Association Dr. J. Elizabeth Garraway
10:30 a.m.	University System of Maryland Dr. William E. Kirwan
11:30 a.m.	Morgan State University Dr. Earl Richardson
12:00 noon.	Break
12:30 p.m.	St. Mary's College of Maryland Dr. Jane Margaret O'Brien
1:00 p.m.	Baltimore City Community College Dr. Sylvester E. McKay
1:30 p.m.	Regional Higher Education Centers
1:30 p.m.	• Eastern Shore
1:45 p.m.	• Southern Maryland
2:00 p.m.	• HEAT Center
2:15 p.m.	• Waldorf Center

**Note:** Times may vary. Please be prepared to speak earlier if necessary.

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# **MARYLAND HIGHER EDUCATION COMMISSION**

## **Finance Policy Committee**

### **Minutes of Meeting**

**August 8, 2002**

The Finance Policy Committee met on Thursday, August 8, at the Maryland Higher Education Commission, 839 Bestgate Road, Annapolis, MD. Committee members present were: Dr. Richard P. Streett, Chair; Dr. Donald Slowinski, Vice Chair; Dr. George Malouf; and Mr. Tawan Perry.

Staff members present were: Karen R. Johnson, Secretary; Janice Doyle, Assistant Secretary; Dr. John Sabatini, Assistant Secretary; Maureen Walsh-David, Assistant Attorney General; Monica Randall; Geoffrey Newman; David Beard; Cathy Tidwell; Jody Sprinkle; and Susan Taylor.

## **CALL TO ORDER**

Richard P. Streett, Jr. called the meeting to order at 1:35 p.m. Karen Johnson, Secretary of Higher Education, introduced Tawan Perry, a student member of the Maryland Higher Education Commission and member of the Finance Policy Committee. Ms. Johnson explained that each year a student from one of Maryland's colleges or universities is appointed to the Commission. Mr. Perry is an Education major at Morgan State University.

## **APPROVAL OF MINUTES**

The minutes for the May 9, 2002 Finance Policy Committee meeting were approved as submitted.

## **FUNDING GUIDELINE MODIFICATION FOR THE UNIVERSITY OF BALTIMORE**

Geoffrey Newman, Finance Policy Analyst, reported that the University System of Maryland submitted a proposal to modify the funding guideline for the University of Baltimore. The proposal is to change the weighting of all undergraduate students to 1.0. This modification is required due to a change in the Integrated Postsecondary Data Systems data collection. Beginning with data from the 2000 enrollment survey, data is no longer collected by lower and upper division for undergraduate students. Therefore, it will not be possible to assign weights to upper and lower division students for UB's peers.

The original guideline weighted enrollments at UB and its funding peers to reflect the higher costs associated with educating upper division students. The weightings were as follows: 1.0 for lower division undergraduate students; 1.5 for upper division undergraduate students; and 1.8 for all graduate and first professional students. This framework compensated for fewer undergraduate students.

The proposed method is consistent with all other USM institutions. The weighting of both the graduate and first professional students will remain at 1.8 which are based on the full instructional cost ratios per credit hour as reported in national studies. The new enrollment calculation will be used in the fiscal 2004 operating budget cycle.

Mr. Newman asked the committee to approve the guideline modification and forward this recommendation to the Commission. Commissioner Streett moved for approval of the recommendation. The motion was seconded and carried unanimously.

#### **GUIDELINE REVISIONS FOR THE COMMUNITY COLLEGES' INNOVATIVE PARTNERSHIPS FOR TECHNOLOGY PROGRAM**

Monica Randall, Director of Finance Policy, reported that during the 2002 Maryland Legislative Session, the General Assembly passed legislation that extends the eligibility period for the Innovative Partnerships for Technology program for four additional fiscal years. This program provides State-matching funds for donations for technology needs of eligible community colleges. The legislation also changed the maximum State match amount to \$300,000, broken down to two \$150,000 increments over a four-year period for each community college.

In addition, the Department of Budget and Management completed an audit of the Innovative Partnerships for Technology Program in May of this year. Based on their findings, the Commission will now require all community colleges to submit certification by an independent auditor certifying that donations were designated for technology purposes.

Ms. Randall asked the committee to approve the guideline revision and forward this recommendation to the Commission. Commissioner Slowinski moved for approval of the recommendation. The motion was seconded and carried unanimously.

#### **GUIDELINE REVISIONS FOR THE PRIVATE DONATION INCENTIVE PROGRAM**

Ms. Randall reported that during the 2002 Maryland Legislative Session, the General Assembly passed legislation that increased the amount of matching funds from the Private Donation Incentive Program for eligible donations made to the University of Maryland Baltimore County. The amount was increased from \$750,000 to \$1,250,000,

the maximum State match. The Private Donation Incentive Program provides State-matching funds to promote private fundraising within Maryland's public colleges and universities and encourages the institutions to increase the public's level of gifts and donations to their endowments.

After the May 2002 audit, the Department of Budget and Management recommended revisions to the current guidelines. To ensure requested funds can be verified before the budget submission deadline, the Commission will require institutions to submit all forms prior to receiving a State match. Institutions that are unable to submit all documentation by the November 1 deadline will not be eligible for a State match until the subsequent fiscal period.

Commissioner Slowinski asked why there are differences in the maximum State match for each segment. Ms. Randall stated that these differences were due to the statute, but the staff would investigate.

Ms. Randall asked the committee to approve the guideline revision and forward this recommendation to the Commission. Commissioner Streett moved for approval of the recommendation. The motion was seconded and carried unanimously.

## **ADJOURNMENT**

The Finance Policy meeting adjourned at 1:50 p.m.





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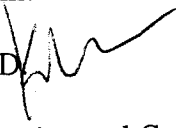
John J. Oliver, Jr.  
Chairman

Karen R. Johnson  
Secretary of Higher Education

## MEMORANDUM

DATE: September 19, 2002

TO: Finance Policy Committee

FROM: Karen R. Johnson, J.D.  STAFF: Monica E. Randall

SUBJECT: Overview of the Operating and Capital Budget Process

At today's meeting, the Finance Policy Committee will receive the fiscal 2004 operating and capital budget requests from the segmental representatives of Maryland's higher education system. The Finance Policy Committee will meet on October 30<sup>th</sup> to discuss these requests and prepare its recommendations for the Governor and the General Assembly.

During today's meeting, staff will distribute background information on all higher education institutions. This material will provide a framework for the operating and capital budget process.

### **Operating Budget Overview**

#### Funding Guidelines

This is the fourth year of using operating funding guidelines to inform budgetary decisions for the University System of Maryland institutions and Morgan State University. The basic concept of the funding guidelines is to identify peer institutions (i.e. 'funding peers') that are similar to the Maryland institution (i.e. "home" institution) in mission, size, program mix, enrollment composition, and other defining characteristics. These funding peers are then compared and contrasted with the Maryland institution in order to inform resource questions and to assess performance. Funding guidelines have been developed in accordance with the peer-based methodology approved by the Commission in 1999.

In accordance with the guidelines, the appropriate level of State general fund operating support for the four-year public institutions is \$1.2 billion for fiscal 2004. The guidelines identify a funding gap of \$268 million over the fiscal 2003 State general fund appropriation (Table I). The funding guidelines are designed to inform the budget process by providing both a funding standard and a basis for comparison between institutions. These guidelines do not represent a request for an appropriation.

MARYLAND HIGHER EDUCATION COMMISSION

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**Table I. Maryland's Public Four-Year Colleges and Universities  
Funding Guidelines: FY 2004 (Estimate)**

<b>Institution</b>	<b>FY 2003 Appropriation</b>	<b>FY 2004 Funding Guideline<sup>1</sup></b>	<b>Difference</b>
Bowie State University	\$ 22,797,340	\$ 35,974,166	\$ 13,176,826
Coppin State College	20,578,484	27,154,809	6,576,325
Frostburg State University	28,750,982	33,742,124	4,991,142
Salisbury University	29,593,654	42,736,480	13,142,826
Towson University	68,278,906	79,690,991	11,412,085
University of Baltimore	24,551,570	31,265,396	6,713,826
UM, Baltimore	153,572,918	212,539,509	58,966,591
UM Baltimore County	76,059,090	110,460,377	34,401,287
UM Biotech Institute	16,579,655	20,392,976	3,813,321
UM Ctr for Env. Sci.	13,865,158	17,054,144	3,188,986
UM, College Park	360,483,461	442,613,860	82,130,399
UM Eastern Shore	23,639,481	25,822,782	2,183,301
UM University College	16,982,406	32,319,025	15,336,619
Total (USM Average)	\$ 855,733,105	\$ 1,111,766,639	\$ 256,033,534
Morgan State University	53,216,952	65,131,472	11,914,520
<b>Total</b>	<b>\$ 908,950,057</b>	<b>\$ 1,176,898,111</b>	<b>\$ 267,948,054</b>

Note:

<sup>1</sup>Based on preliminary tuition and fee revenue estimates. Unrestricted State Appropriation and Tuition and Fees per FTES are inflated from fiscal 2000 to fiscal 2004 by 3.2 percent per year based on projections for the Higher Education Price Index (Source: Research Associates of Washington).

### St. Mary's College of Maryland

The State provides funding to St. Mary's College of Maryland. The annual general fund appropriation for St. Mary's College of Maryland is calculated by multiplying the prior year's appropriation by the State and Local Implicit Price Deflator, a measure of inflation that considers the goods and services typically purchased by states and localities.

### Aid to the Independent Institutions

The State provides funding to independent colleges and universities in Maryland through the Joseph A. Sellinger formula for aid to independent institutions of higher education. Eligible independent institutions must meet certain standards concerning the date of establishment, type of degrees conferred, accreditation, and affirmative action programs to receive funding from the State. Currently, 17 institutions are funded under this statutory formula. For fiscal 2004, aid under the formula is calculated by determining 14.3 percent of the aid per full-time equivalent student for the prior fiscal year at selected Maryland four-year public colleges and universities in Maryland. This amount is then multiplied by each independent institution's certified fall enrollment for the preceding year.

### Community Colleges

Community colleges receive State appropriations based on the John A. Cade Funding Formula. Under this formula, the calculation of the amount of formula aid in fiscal 2004 is based on 23.1 percent of the average appropriation per full-time equivalent student at select four-year public institutions (those designated for the Joseph A. Sellinger program) times the number of full-time equivalent students eligible for State aid at the community colleges two years prior to the funding year. The method of distributing formula aid to the institutions includes a fixed cost component which is 38 percent of the total aid and based on each college's prior year appropriation of the formula; a small size component which is two percent of total aid and distributed to small-size colleges; and a marginal cost component which accounts for the remaining 60 percent of State formula aid per FTES and distributed based upon enrollment. In addition, the formula includes a hold harmless provision to ensure that institutions do not receive less formula aid than in the prior fiscal year.

The community colleges also receive State general funds for fringe benefits and statewide programs including: English for Speakers of Other Languages; statewide and health manpower shortage programs; Garrett/West Virginia Reciprocity Agreement; small community college grants; Somerset reciprocity grant; the innovative partnership for technology; and the Appalachian Mountain Community College grant.

### Baltimore City Community College

Baltimore City Community College receives a State appropriation through a funding formula that links the college's general fund appropriation to State support provided to the public four-year institutions. Under this formula, the calculation of the total amount of formula aid in fiscal 2004 is based on 60.9 percent of the average appropriation per full-time equivalent student (FTES) at select four-year public institutions times the number of full-time equivalent students at the college two years prior to the funding year. In addition, State funds are provided to BCCC to fund the college's English for Speakers of Other Languages (ESOL) grant program and are part of the college's annual State appropriation.

### Regional Higher Education Centers

Regional higher education centers serve an important role in achieving the State's higher education goal of providing access to Maryland citizens. In the mid-1990's, the State granted the Commission statutory authority to recommend State funding and administer all State operating funding for centers not governed by the University System of Maryland. According to statute, the Commission may provide grants to the centers for ongoing operating expenses and lease payments and may provide incentive funds to promote collaboration among colleges and universities with the centers providing programs.

## **Operating Budget Review Process**

The governing boards of the University System of Maryland, Morgan State University, St. Mary's College of Maryland, the Baltimore City Community College and the regional higher education centers submit annual operating budget requests to the Commission. Staff reviews these requests and provides recommendations to the Commission. According to section 11-105(i) of the Annotated Code, the Commission may not recommend against a budget item approved by the University System of Maryland Board of Regents unless the item is clearly inconsistent with the State Plan for Higher Education. An integral part of the State Plan is to improve equal educational opportunities for all citizens of Maryland.

Maryland statute provides that the full Commission presents a consolidated operating budget request to the Governor and the General Assembly. This consolidated budget is to include a recommendation regarding the appropriate level of funding for higher education in order to achieve the goals established in the State Plan for Higher Education.

## **Capital Budget Overview**

### University System of Maryland, Morgan State University and St. Mary's College of Maryland

Through the five-year capital improvement program, the State provides funds to Maryland's public four-year colleges and universities. These funds assist higher educational institutions with the construction of new academic facilities to accommodate enrollment growth, to modernize existing facilities and to construct and modernize research facilities. Due to fiscal constraints in 2003, the General Assembly deferred the following projects:

- Towson University – the addition and renovation of the Fine Arts Building;
- University of Baltimore - the renovation of 1300 North Charles Street building;
- University of Maryland, Baltimore - the renovation of Howard Hall;
- University of Maryland Biotechnology Institute – construction of a second building at Center for Advanced Research in Biotechnology (CARB II);
- Morgan State University - the renovation of Banneker Hall; the construction of a new library; campuswide site improvements; and
- St. Mary's College of Maryland - the renovation of Somerset Hall.

The fiscal 2003 budget bill expressed the intent of the General Assembly that the Governor fund these projects in the fiscal 2004 capital budget.

### Independent College and University Association

The State provides grants to assist independent colleges and universities with the costs of constructing and renovating academic facilities and infrastructure. These grants leverage private donations and help the recipients maintain financial stability. Due to fiscal constraints in 2003,

the General Assembly deferred construction funds for Johns Hopkins University's new chemistry building. The fiscal 2003 budget bill expressed the intent of the General Assembly that the Governor provide funding for this project in the fiscal 2004 capital budget.

### Community College Construction Grant Program

With the exception of Baltimore City Community College, all community colleges are eligible to participate in the Community College Construction Grant program.<sup>1</sup> This program, administered by the Commission, provides State assistance for the construction and improvement of facilities at community colleges. This grant funds the construction of major new facilities, renovation of existing facilities, and improvements to campus infrastructure. In addition, the grant provides funds for the ongoing expansion of Montgomery College – Takoma Park; the systematic renovation of buildings constructed in the 1960s, the improvement of existing infrastructure, and the installation of modern telecommunications infrastructure.

The level of State participation in capital projects is determined by two criteria: the portion of the project that meets the space eligibility requirements for State support; and the State cost-sharing formula prescribed in statute. The cost-sharing formula is based on the current expense formula used by the Maryland State Department of Education with a floor of 50 percent. As a result, the State contributes between 50 percent and 70 percent of the eligible costs of a project for the community colleges and 75 percent of the eligible costs of a project for regional community colleges.

The five-year capital improvement program will include funds to address campus space deficiencies created by a projected 20 percent increase in full-time equivalent enrollment at Maryland's community colleges over the next 10 years. In addition, the fiscal 2003 budget bill expressed the intent of the General Assembly that the Governor increase the planned authorization level for fiscal 2004 by \$5.384 million to reflect the deferral of capital projects that occurred in fiscal 2003 due to budget constraints. Table II shows an estimate of the capital improvement program levels for fiscal 2004 to fiscal 2008.

**Table II. Community College Construction Grant Program  
Capital Improvement Program Levels: FY 2004 to FY 2008 (Estimate)  
(In millions)**

FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
\$40.384	\$35	\$35	\$40	\$40

Note: The fiscal 2004 estimated level includes the \$5.384 million deferred from fiscal 2003.

<sup>1</sup> Baltimore City Community College became a State institution in fiscal 1991 and is not eligible to participate in the Community College Construction Grant program. The State however, provides capital funds directly to the college.

### Baltimore City Community College

The State provides funding to Baltimore City Community College for capital projects. The primary focus of the five-year capital improvement program is the modernization of the main building on the Liberty Campus. Improvements to this 37 year old structure include the modernization of instructional and administrative space and enhancing the functionality of existing space. In fiscal 2003, the General Assembly deferred this project due to budget constraints. The fiscal 2003 budget bill, however, expressed the intent of the General Assembly that the Governor fund this project in the fiscal 2004 capital budget.

### Regional Higher Education Centers

The State provides funding to the regional higher education centers for capital projects. Currently, the five-year capital improvement program includes planning funds for a third classroom building at the Southern Maryland Higher Education Center in fiscal 2007.

### **Capital Budget Review Process**

All institutions and regional higher education centers submit their capital budget requests to the Commission for review. Staff reviews these requests with specific attention to assessing how the projects support the role and mission of the institutions, the current and projected enrollments, consistency with space guidelines, and the adequacy of current and proposed facilities to accommodate the academic, research, and support requirements of the institutions. In addition, staff reviews these requests in accordance with the capital budget priority list established annually by the Commissioners. Attached is a copy of the fiscal 2004 capital budget priorities (Table III).

State authorized capital projects are funded from four sources: 1) general obligation bonds; 2) academic revenue bonds; 3) pay-go funds (general funds); and 4) recycled funds. In addition, some institutions are authorized to issue auxiliary revenue bonds to fund revenue generating facilities such as residential dormitories and parking garages. These bonds are repaid by revenues from auxiliary fees, contracts, grants, and gifts.

**RECOMMENDATION: This item is for information only.**

**TABLE III. CAPITAL BUDGET PRIORITIES**  
**FY 2004**

Each year the Maryland Higher Education Commission approves a set of priorities to guide in the evaluation of capital budget requests. All capital projects are placed into one of the priority categories. The Capital Budget Priority Categories provide the basic framework for evaluating and recommending projects. Under the priorities, projects are ranked first by the priority category and further by types of facilities.

<b>Project Priority Categories</b> ▼	<b>Types of Facilities</b>			
	<b>Academic Facilities</b>	<b>Research Facilities</b>	<b>Support Facilities*</b>	<b>Regional Higher Education Centers</b>
I) Life Safety	Facilities that support the instructional programs essential to the approved role and mission of the institution.	Research facilities consistent with the approved role and mission of the institution.	Administration, physical plant space, and other support services.	Facilities that include participation by more than one institution and offer an array of programs at multiple degree levels.
II) Legal Mandates				
III) Project Completions				
IV) Renovation or Renewal of Existing Projects				
V) Improvements to Utility & Basic Support Services				
VI) New Construction				
VII) Site Improvements				
VIII) Land Acquisition				
				Facilities that address workforce training needs or offer programs that lead to certification in a workforce skill.

Note: To the extent possible, institutions are encouraged to seek non-public financing for revenue-generating facilities such as student housing, parking, bookstores, athletic facilities, and dining services.